



DEPARTMENT OF THE ARMY
HEADQUARTERS UNITED STATES ARMY FORCES COMMAND
1777 HARDEE AVENUE SW
FORT MCPHERSON GEORGIA 30330-1062

REPLY TO
ATTENTION OF

AFLG-PROM

16 May 1997

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Contracting Information Letter (CIL) 97-29

1. This CIL contains information on the following subjects:

- a. Consolidation of Contract Requirements,
- b. Appeal Files,
- c. Incentivizing Sole Source Contractors,
- d. Use of Re-Refined Motor Oil, and
- e. U.S. Army Audit Agency Audit Report AA 97-77,
Contractor Payment Process, January 17, 1997.

2. Consolidation of Contract Requirements

a. Forwarded at enclosure 1 is a policy letter on Consolidation of Contract Requirements, dated 11 Feb 97, from the Director, Office of Small and Disadvantaged Business Utilization, for your information and guidance. The letter also includes the following enclosures:

(1) Memorandum from Deputy Secretary of Defense, dated 28 Oct 96, subject: Consolidation of Contract Requirements;

(2) Memorandum, SFAE-CSA-COT, dated 29 Jan 97, subject: Contracting Functional Area Assessment (FAA) Implementation;

(3) Memorandum, SARD-PC, dated 31 Oct 94, subject: Contract Bundling.

b. A previous Contracting Information Letter (CIL 97-16), dated 24 Jan 97, topic: A Significant New General Accounting Office (GAO) Case on "Bundling" - Advanced

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Elevator Services, Inc., also addressed the topic of Contract Bundling.

c. In summary, the Army policy on consolidation of contract requirements and bundling clearly establishes the requirement to consider the impact of consolidation and bundling on each acquisition as it relates to the small, small disadvantaged, and women-owned small business concern programs.

d. For those consolidation requirements that are not set aside, ensure your file includes the necessary justification to support bundling as discussed in the references in paragraph 3a. The negative impact of consolidation can also be mitigated through aggressive subcontracting goals and policies. The extent to which subcontracting opportunities are extended to small and small disadvantaged businesses must be considered as part of the source selection decision in compliance with DFARS 215.605. The source selection evaluation shall include the extent to which offerers identify and commit to small business subcontracting and include an assessment of the offerers' past performance in complying with subcontracting goals. Additionally, Contracting Officers should challenge any subcontracting plan that does not contain positive goals and consider the extent to which an offerer's plans to use competition restricted to small disadvantaged business concerns, historically black colleges and universities, or minority institutions.

e. Research with SARDA indicates that an upcoming Acquisition Circular Number 2 will implement the approval requirement for the bundling efforts to comply with guidance in the 31 Oct 94 policy letter. However, in the interim, compliance with the policy letter (see paragraph five of the memorandum referenced at a(3) above) should be followed by obtaining the Head of Contracting Activity (HCA) approval for determinations for any consolidations that cannot be placed under one of the preference programs.

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f. For additional information, contact Gail Burrell at DSN 367-6787.

3. Appeal Files

a. Effective immediately, the requirement to send copies of appeal files to FORSCOM for review is rescinded. The contracting officer shall forward appeal files directly to ASBCA and the Chief, Trial Attorney's Office, without sending a concurrent copy to the PARC office for review (see AFARS 33.212-90-3). Forces Command will no longer be reviewing the ASBCA files unless a reviewing official specifically requests the Headquarters to review a claim file.

b. In accordance with AFARS 33.212-90-4, Review of Appeals, the HCA is required to establish procedures that all appeals filed under the disputes clause are reviewed at a level higher than the contracting officer, and designate a reviewing official. Accordingly, we provide the following guidance effective upon receipt of this CIL.

(1) We designate the Director of Contracting (DOC) or in the case of the AACC, the Chief of the Contracting Office, as the reviewing official of all appeal files. The Reviewing Official may be redesignated; however, the authority must be placed at a level higher than the contracting officer (AFARS 33.212-90-4(a)(2)). The Reviewing Official's duties are described at AFARS 33.212-90-4(b).

(2) The contracting Officer shall develop the appeal file IAW AFARS 33.212-90-3. Approval IAW the established procedures is required on all appeals prior to forwarding the file to the ASBCA and the Chief Trial Attorney's office.

c. Replacement page for the FFARS is at enclosure 2.

d. Contact Julie Grace, DSN 367-5690, for additional information.

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4. Incentivizing Sole Source Contractors.

a. Provided at enclosure 3 is a DRAFT copy of a compendium of best practices collected from various Army Commands, received from SARDA. Currently SARDA is still collecting best practices for incentivizing sole source contractors to meet cost and performance requirements. They are also interested in unique management oversight approaches taken on sole source contracts after award. If you go into the internet to the SARDA Homepage (<http://acqnet.sarda.army.mil/>) and go under acquisition reform, there is a posted message on right of screen requesting your practices or new ideas on what incentives have/could be used to motivate sole source contractors to improve performance at reduced cost. Your articles can be emailed to Dr. Maxwell E. Westmoreland at westmorm@sarda.army.mil. Sarda intends to publish a final version of this DRAFT copy on the internet within the next month. You will be able to access by going to <http://acqnet.sarda.army.mil/acref/acqref11.htm>.

b. We wish to thank both Fort Drum and Fort Polk for their submissions to SARDA. We encourage everyone to share your lessons learned and any good ideas you might have in this area to email reference cited above.

c. For additional information, please contact Gail Burrell at DSN 367-6787.

5. Use of Re-Refined Motor Oil

a. The Military Department and Defense Agencies shall purchase re-refined motor oil from the Defense Logistics Agency for 10W30 and the Defense Supply Center for 15W40 (see enclosure 4, memo from the Office of the Under Secretary of Defense, dated 26 November 1996, and enclosure 5, "Re-Refined 15W40 Motor Oil").

b. The Under Secretary of Defense established a DOD preference program for all designated Environmental

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Protection Agency (EPA) guideline items and a policy that requires 100 percent of DoD purchases of designated items (encl 6) meet or exceed the EPA guideline standards (motor oil is one of the designated items).

c. Exceptions to the preference for the purchase of designated items require a written justification that cites at least one of the following conditions:

(1) The product is not available competitively within a reasonable time frame.

(2) The product does not meet appropriate performance standards.

(3) The product is only available at an unreasonable price.

d. For additional information, please contact Julie Grace at DSN 367-5690.

6. U.S. Army Audit Agency Audit Report AA97-77, Contractor Payment Process, January 17, 1997

a. Reference memo, SARD-PS, 31 January 1997, SAB (encl 7).

b. Subject audit found that the Army is paying contractors considerably better than the DOD goal. Two recommendations, however, were directed in an effort to improve performance. Review these recommendations and initiate the action required to comply with the audit:

(1) Recommendation A-2: Require new Automated Contracting System Administrators (SAs) at Army contracting directorates to obtain overview training on the Computerized Accounts Payable System (CAPS).

Action required: DOCs are advised that SAs should attend the formal training conducted by APRAO to become familiar with CAPS.

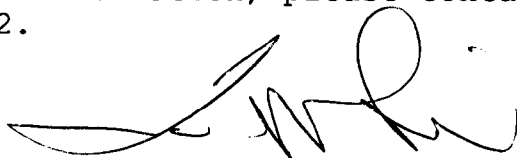
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(2) Recommendation B-1: Direct Army managers to emphasize the need for proper and timely processing of receiving reports and provide refresher training for personnel directly involved with the processing of these reports.

Action required: DOCs should include a section on the processing of receiving reports in your Customer Service manual as well as the SOP. DOCs should also include refresher training in Credit Card instruction, DOC newsletters, etc.

c. For additional information, please contact Clyde Thomas at DSN 367-6372.



7 Encls
as

TONI M. GAINES
Chief, Contracting Division, DCSLR
Principal Assistant Responsible
for Contracting

DISTRIBUTION:

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DEPARTMENT OF THE ARMY
OFFICE OF THE SECRETARY OF THE ARMY
WASHINGTON, DC 20310-0101

11 FEB 1997

REPLY TO
ATTENTION OF

SADBU

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Policy Letter on Consolidation of Contract
Requirements

The Deputy Secretary of Defense recently signed a policy memorandum outlining the Department of Defense (DOD) position on consolidation/bundling of requirements (Encl 1). This policy memorandum supersedes the DOD policy statement signed on June 1, 1982, subject, "Consolidation and Small Business." In summary, the updated policy (i) permits contract consolidation only if it is determined that the government will gain significant benefits in terms of reduced cycle costs, improved services, or both; (ii) requires that multiple task or delivery order contracts, particularly for professional and technical services, be examined to determine if similar benefits are achievable; and, (iii) in the event that consolidation will result in significant benefits, that minimum targets for prime and subcontract awards to small, minority-owned, and women-owned businesses, be established that are comparable to the proportion, type, and level of sophistication of work previously awarded.

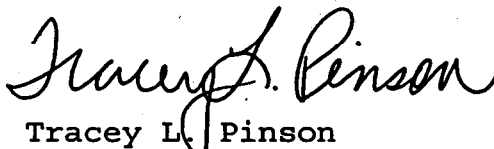
The Army strongly supports the DOD commitment to foster small business prime contract opportunities. The Army Acquisition Executive, Mr. Gilbert F. Decker, has affirmed his continued support of the small business program and of the DOD consolidation policy as evidenced by his January 29, 1997, memorandum on the Contracting Functional Area Assessment (FAA) Implementation (Encl 2). In this memorandum, he also reemphasizes the need to consider the impact that the consolidation of requirements can have on small businesses as prime contractors and further states that his memorandum on contract bundling dated October 31, 1994 remains in effect.

ENCL 1

Recently, several small businesses have contacted me regarding their concern that program and technical personnel are arbitrarily consolidating requirements. Often, these actions come as a result of attempts to streamline acquisition or functional processes. In reality, they typically result in the elimination of small businesses from our critical vendor base. This occurs because of either the sheer magnitude of the newly consolidated requirement; the greater variation of work effort; or the larger and more diverse geographic areas now being covered. All of which makes it unrealistic for small businesses to compete as prime contractors and usually represents a lost opportunity for new businesses to offer us their services.

While I understand the emphasis placed on acquisition streamlining brought about by downsizing and reduced resources, I am concerned about the Army's compliance with the Deputy Secretary's updated policy. Consolidation of requirements into one solicitation may be appropriate in some instances but certainly not in all. Often, the best course of action is to consolidate many requirements into a manageable few solicitations where all businesses have an opportunity to offer outstanding capabilities and advanced technologies, notwithstanding size or economic limitation.

I appreciate your continued support of the small business program and trust your compliance with this DOD and Army policy. Request you provide widest dissemination of this memorandum with all enclosures.



Tracey L. Pinson
Director, Office of
Small and Disadvantaged Business Utilization

Enclosures



DEPUTY SECRETARY OF DEFENSE

1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010



28 OCT 1996

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Consolidation of Contract Requirements

The Department of Defense (DoD) recognizes the critical role small, small disadvantaged, and women-owned small businesses play in DoD's ability to accomplish its mission. Thus, DoD is committed to fostering the use of the small business community in every aspect of its vendor base.

When we plan for the consolidation of several contracts or requirements into a single larger contract, we must consider the impact on small, small disadvantaged, and women-owned small businesses. I would like to emphasize the policy considerations that must be taken into account when contracts or requirements of a kind suitable for performance by small business are proposed for consolidation:

1. Requirements shall be packaged so as not to preclude performance by small, small disadvantaged, and women-owned small business concerns as prime contractors unless the consolidation will result in significant benefits in terms of reduced life cycle costs, improved services, or both. Any such determination shall be supported by market research analysis. The proposed consolidated procurement must be reviewed by the Small Business Administration procurement center representative in accordance with the Federal Acquisition Regulation (FAR) 19.202-1(e) if it is not set aside for small business. Any disagreements between the contracting officer and the procurement center representative should be resolved pursuant to FAR 19.505. Savings solely in the Department's cost of awarding or administering contracts is not sufficient basis for consolidation.
2. Solicitations for goods and services that would have previously been set aside for small or small disadvantaged businesses shall be reviewed for set aside under the order of precedence requiring consideration of award under section 8(a), or set aside under section 15 of the Small Business Act, prior to being included in a consolidated requirement.
3. Prior to contracting for a new requirement or a follow-on to an existing requirement, particularly for professional and technical services, the contracting officer shall conduct an analysis to determine if consolidation provides significant benefits. Prior to the exercise of an option, the contracting officer shall conduct such an analysis if the analysis was not conducted at the time of initial award. For each circumstance, if the analysis indicates consolidation will not provide significant benefits, the contracting officer shall break out tasks for competition. The awards shall be consistent with the order of precedence in the Defense Federal Acquisition Regulation Supplement (DFARS).

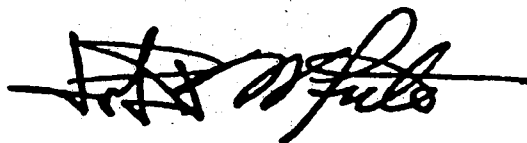
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4. If it has been determined that consolidation of tasks will result in significant benefits, small, small disadvantaged, and women-owned small business firms shall be afforded the maximum opportunity to participate as direct awardees (particularly when multiple awards are anticipated) of portions of the proposed consolidated requirement. When establishing subcontract goals for the consolidated contract, the contracting officer shall consider the proportion, type, and level of sophistication of work previously awarded to small, small disadvantaged, and women-owned small business firms. The extent of small, small disadvantaged, and women-owned small business participation in contract performance shall be addressed during source selection, consistent with DFARS 215.605. The contracting officer shall consider using the incentive and award fee provisions in DFARS 219.708 to maximize both the magnitude and level of sophistication of work subcontracted to small, small disadvantaged, and women-owned small businesses.

5. This policy statement supersedes the policy statement signed by the Deputy Secretary of Defense, dated 1 June 1982, subject, "Consolidation and Small Business."

A handwritten signature in black ink, appearing to be "J. H. [unclear]", with a long horizontal line extending to the right.



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

REPLY TO
ATTENTION OF

29 JAN 1997

SFAE-CSA-COT

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Contracting Functional Area Assessment (FAA)
Implementation

Reference Contracting FAA briefing to the Army Chief of Staff on
January 22, 1997.

A key tasking to the Contracting FAA was to select and recommend the best contracting organizational structure to support the Force XXI Institutional Army Redesign. The alternative chosen was an Army-wide contracting organization based upon a MACOM Centers and Satellites approach. This approach requires all MACOMs to develop and identify their main centers and satellites for the consolidation of contracting actions. It also requires MACOMs to regionalize all negotiated contract actions over \$500,000, as well as all suitable candidates for master contracts, at these centers. We anticipate that installations will retain contract administration, customer interface responsibilities, simplified acquisitions, and credit card purchases. This \$500,000 figure is a maximum, not a minimum. If a MACOM decides to centralize all negotiated and non-negotiated actions with a value above \$250,000 or \$100,000, they may do so. The only MACOMs exempt from this mandatory organizational structure are the Corps of Engineers and the National Guard Bureau.

When developing your centers and satellites implementation plan, you must take into consideration its impact on small, small disadvantaged, and women-owned small businesses. The current Department of Defense (DoD) policy on the consolidation of contract requirements is clearly articulated in a policy memorandum signed by the Deputy Secretary of Defense on October 28, 1996 (Enclosure 1). This memorandum was recently distributed as part of policy alert bulletin number 96-011, dated November 15, 1996. My continuing support of small business contract opportunities is contained in the memorandum on contract bundling, dated October 31, 1994 (Enclosure 2).



While not radical in concept or execution, the centers and satellites approach does represent a significant departure from the status quo. As such, we must be cognizant of maintaining our high standards of customer service.

We need you to provide us with your MACOM's implementation plan for the centers and satellites approach. This plan should, at a minimum, identify the specific center(s) and satellites; the dollar threshold for the consolidation efforts; implementation milestone dates; your proposed MACOM contract organizational wiring diagram; and, plans for establishing MACOM-wide consolidated or master contracts, particularly for maintenance contracts. Additionally, incorporate your acquisition reform strategic plan into your implementation planning documents. We also need you to identify any regulatory obstacles that are hindering your reorganization efforts.

Please provide the required information to the U.S. Army Contracting Support Agency, ATTN: Mr. Robert Friedrich, (703) 681-7577, fax (703) 681-7580, DSN 781-, e-mail friedrir@sarda.army.mil, within 90 days from the date of this memorandum.



Gilbert F. Decker
Assistant Secretary of the Army
(Research, Development and Acquisition)

Enclosures

DISTRIBUTION:

Deputy Chief of Staff for Acquisition, HQ, U.S. Army Materiel Command,
ATTN: AMCAQ, 5001 Eisenhower Avenue, Alexandria, VA 22333-0001
Commander, Military Traffic Management Command, ATTN: MTCG, 5611
Columbia Pike, Falls Church, VA 22041-5050
Commander, U.S. Army Pacific, ATTN: APCG, Fort Shafter, HI 96858-5100
Commander, U.S. Army Training and Doctrine Command, ATTN: ATCG,
Fort Monroe, VA 23651-5000
Commander, U.S. Army Intelligence and Security Command, ATTN: IACG,
Fort Belvoir, VA 22060-5270
Commander, U.S. Army Military District of Washington, ATTN: ANCG, Fort
Lesley J. McNair, Washington, D.C. 20319-5050



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, DC 20310-0103



31 OCT 1994

SARD-PC

MEMORANDUM FOR ARMY ACQUISITION COMMUNITY

SUBJECT: Contract Bundling

As we continue to streamline our acquisition operations, we are likely to face an increasing number of situations in which we must decide whether or not to consolidate (or bundle) our contract requirements in order to achieve the savings often related to economies of scale.

I am concerned that we take special care to ensure that when consolidations occur, they do not threaten the historical participation of small and small disadvantaged businesses--firms that have served the Army long and well as both prime and subcontractors. Such a threat could arise whenever a proposed consolidation would significantly expand the scope of work, or otherwise require contracting in terms so broad as to exceed the capabilities of the typical small business.

In the interest of maintaining an effective small and small disadvantaged business utilization program, I desire that the potential impact on the contracting opportunities of this community be explicitly assessed each time the consolidation of requirements is considered.

If possible, we should avoid consolidating requirements currently provided by a small or small disadvantaged business, if the consolidation itself is likely to create performance demands beyond the capability of a small or small disadvantaged business. When requirements are consolidated, priority shall be given to acquiring them through the small and small disadvantaged business preference programs.

If circumstances dictate consolidation, written justification supporting this action shall be provided to the contracting officer by the program manager or requiring activity. The determination that a consolidated requirement cannot be placed under one of the preference programs must be approved by the Head of the Contracting Activity prior to release of the solicitation.

Encl 2

-2-

Your immediate and continuing attention to this matter is appreciated.

A handwritten signature in dark ink, appearing to read 'G. Decker', with a long, sweeping horizontal flourish extending to the right.

Gilbert F. Decker
Assistant Secretary of the Army
(Research, Development and Acquisition)

PART 33 PROTESTS, DISPUTES AND APPEALS

SUBPART 33.1 PROTESTS.

**33.191 After Action Reporting of Protests and
Quarterly/Annual Analysis and Summary.**

(S-100) The installation advisor shall submit reports directly to the Office of the Trial Attorney.

SUBPART 33.2 DISPUTES AND APPEALS.

33.212 Contracting Officer's Duties Upon Appeal.

33.212-90-4 Review of Appeals.

(a) The Director of Contracting (DOC) or the Chief of the Contracting Office (COCO) is the designated reviewing official for all ASBCA appeal files. The Reviewing Official may be redesignated; however, the authority must be placed at a level higher than the contracting officer.

DRAFT

BEST PRACTICES

INCENTIVIZING SOLE SOURCE CONTRACTORS

The following is a compendium of practices obtained from Principal Assistants Responsible for Contracting (PARCs) from various Army Commands.

U. S. Army Forces Central Command

From: docdir@dhahran-emh3.army.mil
To: Theimer, COL David
Subject: RE: Incentivizing Sole Source Contracto
Date: Wednesday, February 19, 1997 11:45AM

Hello Sir. How are you? I hope this reply isn't too late. Your message said 28 February so I shouldn't be.

I always thought the best way to incentivize is through money. Contractor's seem to understand this. Some PCO's think this is a giveaway program and say "we're already paying him to do the contract, why should we give him more?"

The idea is to set up a pot of money, in addition to the fee already on the contract, as a separate clin which could be earned by the contractor. It would be doled out solely based on the discretion of the PM and it would be non-disputable. In a sense this would be akin to the award fee under a cpaf contract except much simpler and more direct.

If a contractor satisfied the customer then the customer could reward him with some additional fee dollars. What a way to get his attention and keep him customer focused. Key to this working, I think, is keeping the award criteria very specific and simple without a lot of reviews and second guessing by PCO's and/or upper management.

Charles Horwitz

U. S. Army Space and Strategic Defense Command

Tactical High Energy Laser (THEL) Advanced Concept Technology Demonstrator (ACTD)

The U.S. Army Space and Strategic Defense Command Contracting and Acquisition Management Office is executing a fast-paced acquisition to accomplish an urgent joint United States-Israeli program to design, develop, fabricate and functionally test a Tactical High Energy Laser (THEL) Advanced Concept Technology Demonstrator (ACTD). The effort has been shaped by the urgency of the requirement, developing technical specifications, and tight fiscal constraints. These demanding circumstances have resulted in the application of an unusual and highly-beneficial contract incentive structure, and an equally unusual and beneficial team-oriented management/oversight approach fostered by both government and contractor.

In 29 April 1996, President Clinton made a commitment for the United States to collaborate with Israel in the development of a THEL Advanced Concept Technology Demonstration to evaluate the effectiveness of a THEL for the ultimate purpose of defeating the threat posed by Katyusha and other short range rockets against the cities in northern Israel. On 11 May 1996, Secretary of Defense Perry established the THEL ACTD Program and the urgency of its objective. The completion date for the THEL ACTD is 31 March 1998, which presents a challenging, compressed schedule allowing little more than 21 months for performance.

As soon as the THEL ACTD Program was established, immediate initiation of contract effort was required. On 14 May 1996, three days after the program was established, the Contracting Officer approved precontract costs to enable the prime contractor, TRW, Inc., to initiate the performance of long-lead-time aspects of the requirement pending finalization of the formal Memorandum of Agreement (MOA) between the Department of Defense and the Israeli Ministry of Defense detailing the THEL Program. With the signing of the MOA on 18 July 1996, a letter contract with a not-to-exceed of \$89 million was issued to TRW on 19 July 1996. It was accepted by TRW on 23 July 1996. TRW was selected to undertake the THEL ACTD because the compressed schedule requires the use of a mature laser technology which only TRW has developed and demonstrated.

Certain terms and conditions were specifically agreed to by TRW upon acceptance of the letter contract. Significant among these is a cost-plus-award-fee (CPAF) structure and a cost control incentive which transfers cost responsibility to the contractor once a cost ceiling of \$89 million is reached. This special cost incentive feature equates to a 0 percent government, 100 percent contractor cost sharing which renders unallowable costs above an amount which is equal to the estimated cost plus the potential award fee pool--yet requires the contractor to complete the effort. The terms of the award fee provision include a \$0 base fee and a potential award fee of 15 percent; a single comprehensive evaluation criteria which encompasses cost management, technical accomplishment, cooperation with the government, and timely performance; and a single comprehensive evaluation at completion of performance. Also, at TRW's request, funds can be moved from the potential award fee pool to cover costs which exceed the estimated cost of the contract.

The CPAF structure recognizes that technical requirements were relatively fluid at inception of the acquisition and would gradually be refined during the negotiation of the MOA and subsequent government and contractor analyses of performance trades and program structure. The single, broad evaluation criteria was established at the onset to have enough flexibility to be appropriate to final performance specifications which would not be known until well into contract performance. The one-time evaluation at the completion of the effort is consistent with minimizing administrative activities not directly associated with accomplishment of the effort. The transfer of cost responsibility to the contractor once a limit of \$89 million is reached was necessary due to the limited funding available for the program. To balance these contract terms--which are seemingly stacked in favor of the government--teaming between government and contractor has resulted in TRW being involved in the MOA negotiations, performance trades and program analyses through which the performance requirements of the contract were defined. In addition, TRW quantified a number of performance objectives in its proposal and in subsequent negotiations for letter contract definitization. Finally, a 15 percent potential award fee (with no base fee) serves as a significant incentive and reward for the contractor to accept the risks associated with the effort.

The entire ACTD effort is being performed utilizing the Integrated Product Team approach, with the involvement of TRW, a number of United States and Israeli subcontractors, and United States and Israeli government representatives. Although difficult to quantify, the overall benefit of such teaming is seen in the atmosphere of mutual trust and esprit de corps which permeates the program and promotes effective communication and a can-do attitude in contractor and government team members alike.

The benefits of teaming were seen in the fact-finding by government technical, pricing, and contracting personnel which took place concurrently with TRW's preparation of the cost and technical

proposal. This promoted letter contract definitization with a very high level of mutual understanding between the parties, thereby promoting exceptional performance of the program.

Teaming also places government evaluators in a position to appropriately frame evaluation of performance in light of their first-hand knowledge of the work being performed. Likewise, they can provide real-time input in regard to perceived short-falls in performance and the contractor can make real-time adjustments, thereby lessening the likelihood that less-than-excellent performance will result.

Participation as a team member in the shaping of the technical requirements of the effort, coupled with the bounding effects of the CPAF/Capped contract structure has resulted in the contractor exercising diligent--and successful--design-to-cost management of the effort. Halfway through the program (and after TRW has negotiated more than a dozen firm fixed price contracts with Israeli and United States subcontractors for a total of approximately \$37 million), the THEL ACTD contract is a success story. Based on a recent (February 1997) independent government review of the program, TRW is on schedule and within budget to successfully complete the THEL ACTD effort.

U. S. Army Forces Command

In FY 96 FORSCOM achieved a 96.8% competition rate. Noncompetitive extensions of competitive acquisitions due to award delay (i.e. milestone slippage, protest resolution, etc.) make up a considerable portion of our noncompetitive actions. Given the small percentage and nature of our noncompetitive action, we have not faced a major challenge in incentivizing our sole source contractors. However, we do share the following in regard to incentivizing sole source and non sole source contractors towards excellence in performance.

Fort Drum has established a Blue Ribbon Contractor Award (BRCA) program to recognize all contractors, to include sole source, who perform their contracts in an excellent manner. This program recognizes that contractors are motivated by more than money. The implementation of the program coincided with the new past performance requirements and as such gained additional interest from the contractor community. The features of the program are described below.

The BRCA program was implemented over two years ago and requires contractors that meet a dollar value/complexity of work criteria to be formally evaluated on their performance. The ratings mirror those established for evaluating past performance and contractors rated excellent receive a certificate identifying them as a "Blue Ribbon" Contractor. 40 elements are rated between the technical and contracting personnel. The contractor must receive an exceptional over 50% of the elements applicable to their contract.

In FY 95 Fort Drum recognized 11 BRCs and in FY 96 the number of awards more than doubled, with Fort Drum recognizing 27 BRCs. In addition to recognizing a contractor's performance that exceeds Fort Drum's expectations and aiding them in meeting the new FAR requirement to capture other contractor's to improve their performance. This is done by providing contractors with a copy of their evaluation that explains areas of strengths/weaknesses. The results of this program has exceeded Fort Drum's expectations. Fort Drum continues to see more of their contractors concerned about their performance with this award program. The BRCA has improved communication and teaming. BRCs tend to identify problems and offer solutions and handle modifications more efficiently. An annual luncheon is held to issue awards. Local media coverage is present. Last years luncheon had over 100 guest present.

Some of Fort Drum's BRCA recipients were sole source contractors from the NISH and 8(a) programs.

Fort Polk's Environmental/Natural Resources Management Division of the Directorate of Public Works has established a program to incentive contractors as well. Again, while this program is not exclusive to sole

source contractors, the benefits extends to them as well. The Environmental Compliance Award (ECA) program provides certificates to contractors and the military units. The program was implemented two years ago. Three certificates are issued annually. Awards are competed within three categories of contract size. The certificates are presented during the Commanding General's staff briefing and printed in the installation newspaper. Since the ECA has been in place the contractor's are more aware of the environment and are taking positive, pro-active steps to be in compliance with environmental requirements.

All of our cost reimbursement sole source non competitive contracts are cost plus award fee which offers some measure of performance incentive. Contractor performance is generally evaluated quarterly for the determination of the fee award.

U. S. Army Tank Automotive Command

AMSTA-AC-PCF

INFORMATION PAPER

SUBJECT: Incentivizing Sole Source Contractors

1. The following is a method we use on the Abrams Contracts to Incentivize Sole Source Contractors to control costs and meet GFM delivery schedules. A quality product means increased earnings:

The TACOM-ACALA GFM contracts in support of Abrams production/Upgrade have a "Failure Free at the Tank Plant" provision. This requires the contractor to price (Firm Fixed) repair and/or replacement for 18 months period after GFM acceptance. This 18 month period covers the GFM through Tank acceptance for any problems not attributable to misuse, neglect, improper repair, or alteration by the government. Failures, not attributable to the government must be repaired or replaced by and at the GFM contractor's expense within a set period of time.

2. The point of contact is Ms.Marilyn Strieter, AMSTA-AC-PCF, (309)782-3425.

//signed// (26 Feb 97)

DAMON T. WALSH
MAJ, SF
Deputy Exec for Contracting - ACALA

AMSTA-AR-PC-G

27 Feb 97

INFORMATION PAPER

SUBJECT: Incentivizing Sole Source Contractors

1. In response to Mr. Filipkowski's message 2/18/94, I am forwarding the following:

We have successfully used award fee type features on numerous CPIF contracts to incentivize performance as follows:

- (1) On Crusader we are using an 8% award fee feature to incentivize numerous technical and management criteria.
- (2) On development of the M762/M767 Fuze we used a performance type incentive to maximize Fuze Reliability which well exceeded the reliability standard of 96%.
- (3) On the Multi-Option Fuze for Artillery we used an incentive to maximize the contractor's attempt to achieve the Design to Unit Production Cost Goal.

Although the two fuze contracts were awarded competitively, these same initiatives can be used in the sole source environment with equal success.

2. The POC for this action is Ms. Dianna McGinley, AMSTA-AR-PC-G, DSN 880-4735.

//signed//
GEORGE W. MARCHANT, CPCM
Manager, Research & Integration
Technology Group

AMSTA-AQ-M

4 Mar 97

INFORMATION PAPER

SUBJECT: ALPHA Contracting on the Saudi CLS (Contractor Logistics Support) Program

1. TACOM-Warren's Acquisition Center has a cost plus fixed fee contract for CLS (Contractor Logistics Support) in support of the M1A2 tanks for the country of Saudi Arabia. An example of some of the services under this contract are: deprocessing of M1A2 tanks in-country, supply, maintenance support; technical support; NET, institutional, and sustainment training; equipment handoff to Royal Saudi Land Forces, personnel support services, delivery of training aids and facilities requirements.
2. In order to streamline the process of making changes to the contract, the government and contractor team to develop scopes of work before any other action begins. This eliminates the potential of numerous changes occurring once price negotiations begin.
3. Once the scopes are fully developed, member of the TACOM team (generally one or two contract specialists and price analysts) travel to Saudi Arabia to price the actions with the contractor. If there are more than one contract specialist and price analyst, they form mini-teams with full authority to reach agreement on their particular elements. DCAA and DCMC participate in the teaming process as well.
4. This entire process eliminates the need for the contractor to develop a formal proposal. The TACOM team sits down with the contractor and as a team reaches consensus on every element. This saves an enormous amount of time. An example of this was the fact that several scope efforts were definitized in June 1996 for approximately \$49M which took only about three weeks to do once the TACOM team reached Saudi Arabia. Normally this type of effort would take approximately six to eight months, counting proposal development and government evaluation/negotiation.

RELEASED BY: DANIEL G. MEHNEY
DIR OF ACQ CEN
DSN: 786-7025

ACTION OFFICER:
P. DeFOUR
DSN: 786-77183

AMSTA-AQ-E

4 Mar 97

INFORMATION PAPER

SUBJECT: Procurement Council of the TACOM/UDLP Partnership

1. The Procurement Council is a chartered Government/Contractor Team that includes representatives from TACOM, DCMC, DCAA, and United Defense LP, a supplier of a variety of combat vehicle systems.
2. The council focuses upon process improvements for the entire procurement cycle, from requirements to subcontractor certifications.
3. A number of process subteams and IPTs have been developed. Two recent additions: a subteam to look at a multiple year - multiple vehicle contract for the A3, BFIST, C2V vehicles and a subteam to focus on closeouts for M account monies.
4. Process improvements include:
 - a. An initiative to reduce the number of certifications obtained from subcontractors and suppliers and standardize the ways in which certifications are obtained.
 - b. A coordination of contractor and government audit schedules to eliminate duplication of effort and increase the effectiveness of contractor internal audit and government audit resources.
 - c. Use of parametrics and jointly agreed methods to estimate cost elements in proposals, including rates, material, and certain labor accounts.

RELEASED BY: DANIEL G. MEHNEY
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A. SALETTA
DSN: 786-7197

AMSTA-AQ-K (715)

3 Mar 97

INFORMATION PAPER

SUBJECT: Integrated Product Teams

1. Integrated Product Teams (IPT's) have been used at TACOM-ARDEC on numerous programs in the past year including CRUSADER and Wide-Area-Munition (WAM). Both programs committed to the IPT

process early in the procurement process.

2. CRUSADER has used a Government IPT approach to develop the Dem/Val solicitation, and has formed Government/Contractor IPT's to write statements of work, concurrently develop, evaluate, and negotiate proposals, and manage the program.

3. WAM has used Government/Contractor IPT's to accomplish the full cycle of the procurement process from development of the RFP through development and negotiation of the proposal and award of the contract. WAM will also use IPT's to manage the contract.

4. Results show that IPT's:

A) Significantly reduce cycle times when concurrently developing, evaluating, and negotiating proposals.

B) Provide Government personnel with better insight and understanding of the contractor's proposed approach and processes. Should avoid some of the initial costly changes once on contract.

C) Create a "WE" environment instead of "US" and "THEM".

D) Keep Government personnel more involved with the everyday occurrences on the program, becoming aware of problems before they become crisis.

5. WAM showed a cost avoidance of over \$7M as a result of using IPT's to negotiate the contract. CRUSADER effort is still in process.

RELEASED BY: DANIEL G. MEHNEY
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ACTION OFFICER:
J. BOYLE
DSN: 880-6632

AMSTA-AQ-K (715)

3 Mar 97

INFORMATION PAPER

SUBJECT: Partnering Initiative

1. Partnering concept was originally developed by Corps of Engineers to improve communication, promote cost containment, and provide an alternative method of conflict resolution.

2. TACOM-Warren is using formal partnering agreements to improve cooperation, speed problem solving, and avoid litigation.

3. TACOM-Warren currently has partnering agreements with AM General, Goodyear, Texas Instruments, TRAK International, Caterpillar, United Defense LP, Textron, and General Dynamics Land Systems.

4. The agreement with Textron is serving as the AMC pilot to develop partnering process, model agreement, handbook, and training.

5. Increased communication and trust is leading to better cooperation in identifying cost savings ideas and elimination of non-value added requirements.

6. Agreements emphasize commitment to resolve problems at lowest possible level and avoid litigation for conflict resolution.

RELEASED BY: DANIEL G. MEHNEY
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ACTION OFFICER:
K. BOUSQUET
DSN: 786-7104

AMSTA-AQ-K (715)

3 Mar 97

INFORMATION PAPER

SUBJECT: TACOM/UDLP Single Process Initiative Task Force

1. TACOM has had significant success implementing the DOD Single Process Initiative. An outstanding example is our SPI initiative with United Defense LP (UDLP).
2. With the merger of FMC Corporation and BMY Corporation, the resulting UDLP organization covered 4 manufacturing sites with multiple contract requirements. An Integrated Product Team was formed between all customers, support organizations, and the contractor to consolidate differing process, documentation, and oversight requirements throughout UDLP programs and plants.
3. The integrated team structure was headed by the MG Andrews and Mr. Tom Rabaut (UDLP President and CEO), with 7 "partnership councils".
4. A "CZAR" was appointed at TACOM and at UDLP to manage ongoing activities of teams.
5. The 27 separate teams are looking at requirements in all areas - engineering, quality assurance, contracting, administration to eliminate/minimize redundant or differing requirements, reduce oversight, delete unnecessary requirements, find smarter ways to do things.
6. To date, over \$23M in program and resource savings over 6 years have been identified. Nine (9) block modifications have been issued impacting numerous UDLP contracts, with over \$1M realized in instant contract price reductions.
7. Recommend Secretary West present TACOM provided Team Recognition Certificate at press conference.

RELEASED BY: DANIEL G. MEHNEY
DIR OF ACQ CENTER
DSN: 786-7025

ACTION OFFICER:
T. MEYER
DSN: 786-5064

AMSTA-AR-PC-A

4 Mar 97

INFORMATION PAPER

SUBJECT: Wide Area Munition (WAM) Integrated Product Teams (IPTs)

1. In FY96, PM-Mines Countermines and Demolitions (MCD) and TACOM-ARDEC Acquisition Center were faced with the challenge of developing, soliciting and awarding two concurrent WAM program non-competitive requirements (Low Rate Initial Production (LRP) & Program Improvement Program (PIP)), with minimal government and contractor resources available.
2. Two IPTs comprised of both government and contractor representatives were concurrently chartered and empowered to work together as cohesive teams to rapidly meet both requirements and provide the highest quality product to the user. The WAM IPTs successfully established two streamlined Request for Proposals with performance based Statements of Work that met user requirements and contained only minimal mandatory military specifications/standards and contract data requirements; two quality proposals that encompass "best value" acquisition; and two mutually acceptable, high quality contract instruments that facilitate post-award management employing IPT philosophy.
3. The WAM program realized both time and dollar savings from its successful use of the IPT methodology throughout the entire cycle, from requirements development through contract award. The acquisition lead time under the IPT approach for the LRP contract was 259 days and 288 days for the PIP contract vs 420 days with the traditional approach. Estimated cost savings is \$7.1M. Using the IPT approach, the proposal costs, contract performance and program administrative costs were significantly reduced.
4. Recommend Secretary West present TACOM provided Team Recognition Certificate at press conference.

RELEASED BY: D. MEHNEY
DIR OF ACQ CEN
DSN: 786-7025

ACTION OFFICER:
P. MILENKOWIC
DSN: 880-5391

ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

26 NOV 1996

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS, LOGISTICS & ENVIRONMENT)
ASSISTANT SECRETARY OF THE ARMY
(RESEARCH, DEVELOPMENT & ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS & ENVIRONMENT)
ASSISTANT SECRETARY OF THE NAVY
(RESEARCH, DEVELOPMENT & ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(MANPOWER, RESERVE AFFAIRS, INSTALLATIONS
& ENVIRONMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Use of Re-Refined Administrative Service Motor Oil (Primarily for
Light-Duty, Gasoline Engines)

Section 6002 of the Resource Conservation and Recovery Act (RCRA) and Executive Order 12873, "Federal Acquisition, Recycling, and Waste Prevention," require federal agencies to purchase items designated by the Environmental Protection Agency (EPA) that are or can be produced using recovered materials. The Under Secretary of Defense (Acquisition & Technology), in a memorandum dated August 25, 1994, established DoD policy, applicable to requirements generating and procuring activities, that requires purchase of recovered content items designated by the EPA whenever they meet performance requirements, are reasonably priced, and are competitively available within a reasonable period of time.

This memorandum provides specific requirements for the use and purchase of re-refined 10W30 administrative service motor oil (principally for light-duty, gasoline engines). Re-refined motor oil is one of the items currently designated by the EPA. We are pleased to announce that the Defense Logistics Agency (DLA) recently awarded a contract for re-refined 10W30 administrative service motor oil. The oil is price competitive with virgin motor oil, and meets American Petroleum Institute Performance Standard SH (1994 Gasoline Engine Warranty Maintenance Service) and the American Automobile Manufacturers Association requirements for use in gasoline engine service.

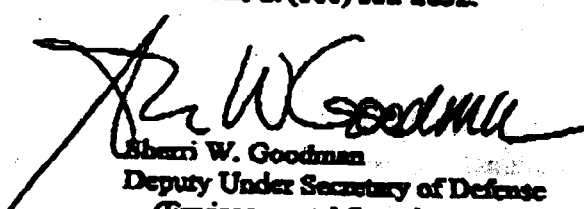
*Environmental Security**Defending Our Future*

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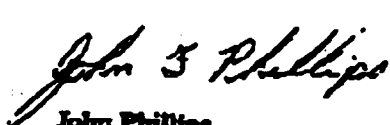
ENCL 4

Military Department and Defense Agencies having administrative fleets shall purchase re-refined motor oil from the DLA contract for all their 10W30 administrative service motor oil requirements, unless one of the exceptions (performance, price, timely availability) mentioned in the USD(A&T) policy memorandum applies. DLA shall fill orders for 10W30 administrative service motor oil from the re-refined motor oil contract, unless the order is accompanied by a written approval and determination explaining why re-refined motor oil cannot be used. In the event re-refined oil stocks are exhausted, DLA will fill re-refined oil requisitions with virgin oil.

The Department's support of quality products made with recycled materials will demonstrate its commitment to creating new markets for environmentally preferable products, and help achieve DoD's environmental security goals. We request that you disseminate this memorandum to your requirements generating activities, procurement activities, and logistics and environmental offices. Further details concerning DLA's re-refined motor oil contract can be obtained from Ms. Robin Champ of Defense Supply Center Richmond at (800) 352-2852.



Sherri W. Goodman
Deputy Under Secretary of Defense
(Environmental Security)



John Phillips
Deputy Under Secretary of Defense
(Logistics)

RE-REFINED 15W40 MOTOR OIL IN ACCORDANCE WITH MIL SPEC MIL-L-2104 IS NOW ON CONTRACT!

The Defense Supply Center Richmond has awarded a re-refined 15W40 oil contract to the Gard Corporation, of Kansas City, KS. This oil is procured in accordance with Military Specification MIL-L-2104, and contains a minimum 25% re-refined base stock. It meets the American Petroleum Institute (API) CD and CD-II performance levels and has been qualified by the Army's Mobility Technology Center-Belvoir, Fort Belvoir, VA.

Re-refined Mil Spec 15W40 engine oil is available to all military and federal customers. Three NSNs may be ordered via MILSTRIP/FEDSTRIP as follows:

<u>NSN</u>	<u>Unit of Issue</u>	<u>Viscosity</u>	<u>Price</u>
9150-01-421-1427	one quart bottle*	15W40	\$ 1.16
9150-01-421-1424	five gallon can	15W40	\$ 18.80
9150-01-421-1432	55 gallon drum	15W40	\$ 174.12

* Must be ordered in multiples of 12 (case load quantities only).

This oil is designed for use in all combat and tactical, diesel and gasoline powered, ground vehicles and equipment, and includes performance requirements for power shift transmissions. This 15W40 re-refined oil may also be used in many hydraulic, power steering, power transmission, and gear box applications, as specified by the lube orders.

The 15W40 Mil Spec oil is on a Direct Vendor Delivery (DVD) contract, so the oil is fresh and shipped directly from the manufacturer's plant to your door within 30 days (for overseas customers, delivery may take slightly longer to reflect shipping times). And, for your convenience, there is no minimum order quantity for these DVD deliveries.

On October 20, 1993, President Clinton signed Executive Order on Federal Acquisition, Recycling and Waste Prevention. This Executive Order urges agencies to buy environmentally preferable products or products made with recovered materials. Re-refined oil is such a product. Upon signing this Executive Order, President

Clinton stated: "Families, businesses, and communities all across America know that recycling makes sense. It saves money and it protects the environment. It's time for the Government to set an example and provide real leadership that will help create jobs and protect the environment, encouraging new markets for recycled products and new technologies."

According to the United States Environmental Protection Agency (EPA), Americans who change their own oil throw away 120 million gallons of recoverable motor oil by dumping it on the ground, by pouring it down storm drains, or by putting it in trash cans. Recycling this motor oil would save the United States 1.3 million barrels of oil per day.

Used engine oil contains contaminants which are picked up during use, as well as components of the additive package. The re-refining process, which consists of vacuum distillation and hydrofinishing, removes these contaminants and additives to produce a "new" base stock; thereby, allowing the oil to be reused.

According to The "Buy Recycled" Training Institute, every ten days the equivalent to the EXXON Valdez spill occurs over the mainland of the US during routine oil changes. Re-refining creates the most responsible demand for used oil, while reducing irresponsible dumping.

Re-refined oil meets all of the warranty requirements for diesel equipment manufacturers. For a copy of the statements by Cummins, Detroit Diesel, and/or Caterpillar, call the number listed at the end of this article.

Buying re-refined oil and recycling used motor oil makes sense. It saves the environment, conserves our nation's resources, and supports legislation signed by the President.

For more information on these products and a copy of the new 1997 DSCR Motor Oil Brochure, contact Ms. Robin Champ at 1-800-345-6333, (804) 279-4908, DSN 695-4908, or email at rchamp@dscr.dia.mil. Or, visit our Internet Home Page at <http://www.dscr.dia.mil>.

Attachment **Designated Items**

Categories

Vehicular Products

- Engine Coolants
- *Retread tires
- *Re-refined lubricating oil

Construction Products

- Structural Fiberboard
- Laminated Paperboard
- Carpet
- Floor Tiles
- Patio Blocks
- Cement and Concrete
- Containing Granulated Blast
- Furnace Slag
- *Cement containing fly ash
- *Building insulation products

Transportation Products

- Traffic Cones
- Traffic Barricades

Park and Recreation Products

- Playground Surfaces
- Running Tracks

Landscaping Products

- Hydraulic Mulch
- Yard Trimmings Compost

Non-paper Office Products

- Office Recycling Containers
- Office Waste Receptacles
- Plastic Desktop Accessories
- Toner Cartridges
- Binders
- Plastic Trash Bags

Paper and Paper Products

- *Paper and paper products

*Consolidated from previously issues guidelines

Additional information on the designated items is contained in EPA's Environmental Fact Sheet, "EPA Issues Comprehensive Procurement Guideline," April, 1995, EPA530-F-95-010, or by calling EPA's RCRA Hotline at 1-800-424-9346.

RECEIVED TIMEMAR 3. 8:02AM

ACQUISITION AND
TECHNOLOGYTHE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010

JUN 3 1996

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
UNDER SECRETARY OF DEFENSE (POLICY)
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Preference for Environmental Protection Agency (EPA) Guideline Items

Executive Order 12873 and Section 6002 of the Resource Conservation and Recovery Act (42 USC 6962) require Federal agencies to establish preference programs for all designated EPA guideline items purchased. Under Secretary of Defense (Acquisition & Technology) memorandum, "Preference for Environmental Protection Agency (EPA) Guideline Items," dated August 25, 1994, established a DoD preference program for the first five EPA guideline items, and established a policy that requires 100 percent of DoD purchases of designated items meet or exceed the EPA guideline standards. The only exception to the preference for the purchase of guideline items requires a written justification that cites at least one of the following conditions:

- the product is not available competitively within a reasonable time frame;
- the product does not meet appropriate performance standards; or
- the product is only available at an unreasonable price.

On May 1, 1995, EPA designated an additional nineteen guideline items (attached). Executive Order 12873 requires that federal agencies revise their preference programs to include newly designated items within one year of their designation by EPA. Accordingly, effective the date of this memorandum, DoD's preference program is revised to include the additional nineteen EPA guideline items.



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TEL: 703 697 2808 2813

P. 005

02/25/97

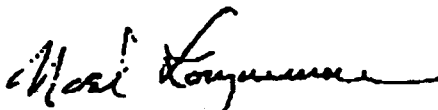
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OADUSD POLL PREV

004

The Department of Defense continues to strongly support the use of quality products made with recycled content. Our support of quality products made with recycled materials will demonstrate a commitment to creating new markets for environmentally preferable products, and help achieve DoD's environmental security goals. Please communicate this information on the additional EPA guideline items to both your requirements generating and your procuring activities.


R. Noel Longumare

Attachment

RECEIVED TIME MAR. 3. 8:02AM



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

FEB 10 1997



SARD-PS

31 JAN 1997

MEMORANDUM FOR PRINCIPAL ASSISTANTS RESPONSIBLE FOR
CONTRACTING

SUBJECT: U.S. Army Audit Agency Audit Report AA 97-77, Contractor
Payment Process, January 17, 1997

The subject audit was requested by the Deputy Assistant Secretary of the Army for Procurement, based on observations of contractor payment problems reported in Army Procurement Management Reviews in Fiscal Year 1995.

The audit generally found that the Army's performance in paying contractors on time was significantly better than the DoD goal. The Army paid about \$1.6 million (about 0.009 percent) in prompt payment interest on about \$15.9 billion of paid invoices, versus the DoD goal of 0.02 percent.

The audit had two conclusions, on Systems Interface and Vendor Payments, that require further action by the Army.

Conclusion on Systems Interface. The Automated Contracting System generally interfaced effectively with the Accounts Payable System. However, in some instances, the process didn't convert accounts payable information into a usable format.

Contracting offices using the Automated Contracting System generally sent contract data promptly to the servicing finance office. They sent this information either electronically or on floppy disks. Systems personnel at the finance office loaded the data into the Accounts Payable System to facilitate vendor payments. Contracting offices accurately sent contracting information for more than 99 percent of Army payments processed through the system.

However, although finance offices regularly sent payment information to the installation contracting offices, the Army sometimes didn't effectively use payment information it received from the Accounts Payable System. In some instances, contracting personnel didn't effectively use the information because they didn't close out contracts promptly after final payment.

Recommendation A-1. Request the Defense Finance and Accounting Service - Indianapolis Center to provide additional payment information in their regular data download, such as interest paid, discounts taken and charges to each accounting code, to better administer contracts and purchase orders.

Action Taken and Direction to Field. The Army concurred in this recommendation and presented this request to the Director, Defense Finance and Accounting Service (DFAS). We will advise PARCs of action agreed to and taken by DFAS.

Recommendation A-2. Require new Automated Contracting System Administrators (SAs) at Army contracting directorates to obtain overview training on the Computerized Accounts Payable System (CAPS).

Action Taken and Direction to Field. The Army concurred in this recommendation. PARCs and Directors of Contracting shall survey training needs of SAs and assure that CAPS training is provided. PARCs are requested to reply by March 31, 1997, on the status and action plan for this recommendation.

Conclusion Regarding Vendor Payments. The Army's contracting and acceptance processes didn't adversely affect vendor payments.

During 1995 the Army paid 91 percent of vendor payments on time. An additional 4 percent of the payments - although paid late - didn't require interest. The Army was responsible for 42 percent of the late payments. The primary weakness in the Army's process was the late processing of receiving reports by installation activities.

Fort Drum Initiative. The Directorate of Contracting at Fort Drum began an initiative in June 1996 to process vendor invoices completely within the directorate. They started the test process in response to experienced payment problems processed by the Indianapolis Center, and anticipated payment problems once the local Defense Accounting Office is transferred to the Orlando Operating Location in February 1997.

Headquarters, U.S. Army Forces Command and the Indianapolis Center approved the test and transferred a voucher examiner position from a Defense Accounting Office to the directorate's Contract Support Division. This voucher

examiner receives, maintains, and processes the documentation necessary to pay vendors. After approval for payment by the certifying official, the information is electronically transferred to the finance office for disbursement. Fort Drum began a six-month test in June 1996.

The initiative moved processing vendor invoices, to include receipt and maintenance of all documentation, from the Indianapolis Center and local Defense Accounting Office to the directorate's contract support division. The center or accounting office still makes the disbursements.

At Fort Drum, AAA observed and flowcharted the new vendor payment process, interviewed key personnel involved in the initiative, and identified and tested key management controls to determine if they were in place and operating. Benefits of the new process include more efficient operations, reduced paperwork, and one-stop audit capability.

Based upon the AAA review, this initiative is believed to have merit, and could become an alternative to the consolidation of Defense Accounting Office functions. To better serve the customer and reduce the administrative burden at the Defense Finance and Accounting Service, the Army should consider expanding this new process to other contracting activities.


Recommendation B-1. Direct Army managers to emphasize the need for proper and timely processing of receiving reports and provide refresher training for personnel directly involved with the processing of these reports.

Action Taken and Direction to Field. The Army concurred in this recommendation. PARCs and Directors of Contracting shall emphasize the need for proper and timely processing of receiving reports and provide refresher training for personnel directly involved with the processing of these reports. PARCs are requested to reply by March 31, 1997, on actions taken to implement this recommendation.

Recommendation B-2. Expand the Fort Drum process at other Army sites - preferably those having recent experience with the CAPS - to better serve the customer and reduce the administrative burden at the Defense Finance and Accounting Service.

Action Taken and Direction to Field. The Army concurred in this recommendation and requested the Director, Defense Finance and Accounting Service (DFAS) to consider the feasibility of implementing the Fort Drum Initiative at contracting offices Army-wide. We will advise PARCs of action agreed to and taken by DFAS, and provide further direction as necessary. In the interim, PARCs and Directors of Contracting are encouraged to begin discussions of this initiative with their local DFAS payment offices, or with DFAS Indianapolis.

We appreciate the attention of PARCs and Directors of Contracting to these audit recommendations. Point of contact is Mr. Wayne Hardin, (703) 681-9100 (DSN 761-9100), email hardinw@sarda.army.mil, Fax 681-7583.



MARK J. FLAVIN
Colonel, AC
Director, Procurement
Field Support

DISTRIBUTION:

Assistant Deputy Chief of Staff for Acquisition, Contracting, and Production Management, HQ, U.S. Army Materiel Command, ATTN: AMCRDA-A, 5001 Eisenhower Avenue, Alexandria, VA 22333-0001
Principal Assistant Responsible for Contracting, HQ, U.S. Army Materiel Command, ATTN: AMCRDA-AC, 5001 Eisenhower Avenue, Alexandria, VA 22333-0001
Executive Director, Acquisition Center, U.S. Army Aviation and Troop Command, ATTN: AMSAT-A-Z, 4300 Goodfellow Boulevard, St. Louis, MO 63120-1798
Commander, U.S. Army Chemical and Biological Defense Command, ATTN: AMSCB-PO, Building E5101, Aberdeen Proving Ground, MD 21010-5423
Director, CECOM Acquisition Center, U.S. Army Communications-Electronics Command, ATTN: AMSEL-AC, Fort Monmouth, NJ 07703-5000
Acting Deputy Chief of Staff for Acquisition, U.S. Army Industrial Operations Command, ATTN: AMSIO-AC, Rock Island, IL 61299-6000
Director, Acquisition Center, U.S. Army Missile Command, ATTN: AMSMI-AC, Redstone Arsenal, AL 35898-5280
Director, Acquisition Center, U.S. Army Tank-Automotive and Armaments Command, ATTN: AMSTA-AQ, Warren, MI 48397-5000